

Scott Home - 202-337-7357

WEBSOFT: LINES OF BUSINESS

1. AOL National IPs.

Description

- Websoft commits to servicing 25 AOL national IPs as top-priority clients, with rollout as follows: 5 by April 1995, 10 by June 1995, and 25 by August 1995.
- Websoft provides these IPs with a 10% discount below normal, full freight charges.
- AOL may choose to subsidize or absorb the cost of building a website, depending on its arrangement with an IP. AOL further may conclude whatever financial arrangement it works out with the IP (revenue sharing, etc).
- Websoft places some designers in Vienna for purposes of executing an integrated HTML/RMP editorial concept. Websoft/AOL also develop joint selling pitch to promote the benefit of using Websoft.
- While most national IPs will be very large clients, some may be small, high-priority ones like Greenhouse clients.

Business Model

- This is a standard fee-for-service business. Websoft should calculate profession time, standard overhead burden, and expenses in developing its pricing. Any special deals should be negotiated by the AOL Brand with the IP.
- Rough revenue projections: 25 IPs times \$100,000 per IP per year = \$2.5 million. If the cost were double revenue would equal \$5 million.
- Fees will be reimbursed either by the IP or by AOL
- AOL Technologies will host the websites built for AOL National IPs, unless these IPs prefer a different arrangement. Websoft should immediately begin coordinating with AOL Technologies to assure adequate capacity. Websoft should bill AOL Technologies charges at cost with no markup.
- Websoft needs to be aware that it is known as a high-cost provider of services. While many AOL National Accounts may need expensive, high-value-added service, others will not. Websoft should seek ways of reducing costs for standard packages of services.

Implementation Plan

- Websoft should immediately begin staffing up to meet this need, which is critical to the AOL Brand.
- Websoft should immediately develop a capability document and a standard proposal template that AOL General Managers can use to initially describe Websoft to IPs.
- Websoft should designate a Vice President for AOL Account Management. This person, who would be a senior Websoft executive, will work in Vienna, accompany AOL GMs on sales calls, and coordinate execution of projects with Websoft. Websoft should also have in Vienna senior design personnel to assure coordination with AOL producers and account managers.

High-revenue potential joint ventures.

Description

These are major Websoft accounts, in which Websoft performs all work for little or no up-front payment, in exchange for a significant share of downstream revenues.

Because of the dependance on downstream revenues and the speculative nature of the internet, joint ventures should only be done when a thorough business analysis of the arrangement shows strongly positive payback in the face of a steep discount rate and fully-burdened costs.

The basic joint venture proposition is the following:

JV would be a new entity, jointly owned by Websoft and the IP.

IP contributes information, and agrees to update this information. IP also agrees to promote the site.

Websoft designs and builds the website, and contracts with AOL Technologies to host the website.

Websoft reaches arrangements with AOL Brand and ISC to promote/feature the website.

Any joint venture requires a heavier than normal commitment of management resources, as Websoft will be focused not only on website design and implementation, but on jointly managing the website as a business.

Because of the risk and the high management attention required, Websoft will do no more than 5-10 joint ventures in 1995.

Business Model

Financial model constructed builds a discounted cash flow model, comparing fully-loaded Websoft costs to projected base case revenues.

The revenue share percentage demanded by Websoft would vary depending on the model. Generally, Websoft should aim for at least a 40% annual rate of return. Websoft can help also achieve this rate of return by including minimum payments and up-front fees.

Websoft would assign a "product manager" to

Assess the venture

Negotiate the deal

Interface between IP and designers in building the site

Work with AOL, ISC, and others to feature/promote the site

Manage the business, in conjunction with an IP

Given start-up costs of \$500k - \$750k per joint venture, assume capital requirements of \$2.5mm to \$7.5mm to fund up front JV costs.

Implementation

- Websoft should immediately hire a business development manager to negotiate and evaluate joint ventures. We should not take whatever crosses our desks.
- We should flesh out a joint venture template, recognizing that each deal will vary. The template would follow the above outline. In a nutshell: IP provides the content, we put the content up and distribute it. We share, with the split based on the value each party brings to the table.
- We should focus on three initial projects and assign *maximum* resources to making these happen. The learning from these will significantly help us down the road.
- These projects should take priority over standard fee-for-service projects, but not over AOL IP projects.

- We should staff up with the expectation of 5-10 deals. Assume one product manager for each two deals.

Other large information providers.

Description

- Websoft makes standard bids.
- In cases where Websoft concludes there is revenue upside, Websoft generally offers the option of discounting the service in exchange for a revenue share.
- Websoft can make certain promotional commitments on behalf of ISC and the AOL/ISC directory. Websoft can make introductions to the AOL brand but cannot commit on their behalf

Business Model

- Business model is the same as WAIS's current model
- WAIS/Websoft should aggressively look for cost savings opportunities and standardization to make prices more competitive.

Implementation

- Websoft should immediately project 6-12 month demand and staff accordingly.
- Websoft should aggressively find ways to standardize and simplify projects for IPs. This should occur through every step of the process, from sales to follow-up.

AOL Smaller IPs.

- Websoft cannot service these accounts through its standard procedures.
- AOL/Websoft need to decide how these accounts should be handled
 - AOL build in-house capacity.
 - AOL develop certified developers program, and manage this closely.
 - Websoft develop certified developers program and manage this closely.

Business Model

Unclear. AOL Brand is looking for help. The best short-term solution is a referral network of webbuilders we can trust. Another option is to provide small IPs with a kit -- a server, authoring tools, and some templates. One option is that Websoft assigns a 3rd party developer coordinator, who works with Ron Dennis, to find and interface with these developers.

Date: Mon, Mar 27, 1995 1:16 AM EDT

From: SDPearson

Subj: Re: Websoft/WAIS offsite

To: Bdunn1

cc: DKAISER, rob@navisoft.com, brewster@wais.com, bruce@wais.com, nick@wais.com, Bobsmith

Posted on: America Online (using WAOL (035d))

Bill, document is on its way.

I think the pricing you are thinking about for the Brand (\$1mm for 10 sites) will be steep for some applications, cheap for others.

We will need to come up with various std. prices for types of work.

It's still unclear who pays Websoft: the Brand or the IP.

It's meaningless to be a profit center when the profits are all from transfer pricing. And, because it is in AOL's strategic interest to keep the IPs in bed with us, we should make the pricing attractive.

415-525-4000

Date: Mon, Mar 27, 1995 1:45 AM EDT
From: SDPearson
Subj: websoft/ISC
To: Bdunn1
cc: Zgi

Posted on: America Online (using WAOL (035d))

Bill, following is the first draft of the "benefits of Websoft" document I promised. I'm also working on a more substantial document that expands upon your email of Friday, in preparation for the offsite.

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WEBSOFT AND AOL

Working with Websoft offers a number of benefits that other internet publishing solutions cannot.

Websoft Capabilities

Extensive experience building HTML interfaces for extremely deep, complex data.

Sophisticated wide area searching capabilities.

Internet publishing solutions designed around the needs of large information providers.

Creative and highly skilled designers.

Integration with America Online and the AOL Internet Services Company

Content published by Websoft can be made available to AOL's 2+ million users through AOL's integrated Web Browser, provided that a substantial portion of the information is made available free to AOL's users. In addition, when it is appropriate to publish in AOL's proprietary system as well as HTML, Websoft and AOL can jointly execute an integrated editorial

strategy.

AOL's Internet Services Company (ISC) will shortly begin rolling out an internet access business in over 150 cities in the U.S. Content published by Websoft can be made available to these users, expected to total over one million within a year.

ISC will in particular be targeting small businesses and work-at-home professionals. This is an ideal audience for high value-added information which can be surcharged. Additionally, these small business audiences will be segmented into vertical markets, allowing precise targeting of information.

Websoft can build an intuitive front-end that eliminates the need for training, and allows non-subscribers to have access to data that was previously available only to a small number of subscribers.

ISC is also building "local affiliates", local franchises that will be offering internet access along with a rich menu of local content. These local affiliates will be ideal outlets through which to distribute information tailored to particular regions or markets.

AOL has unparalleled experience in managing high levels of simultaneous usage. By hosting client sites at AOL, information publishers are guaranteed the highest level of uptime and simultaneous usage. Additionally, response times for customers accessing through AOL or AOL's Internet Services Company will be extremely fast.

Joint Venture with Websoft

A joint venture with Websoft reduces both upfront costs and ongoing maintenance costs for the IP when designing and building websites in exchange for a share of revenue generated by the web site. Importantly, a joint venture aligns AOL's and the IP's interests, assuring that AOL will actively promote and feature the site through its various distribution channels